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DE RUEHMO #3529/01 2000801  
ZNR UUUUU ZZH  
P 190801Z JUL 07  
FM AMEMBASSY MOSCOW  
TO RUEHC/SECSTATE WASHDC PRIORITY 2191  
INFO RUEHZL/EUROPEAN POLITICAL COLLECTIVE PRIORITY  
RUEHXD/MOSCOW POLITICAL COLLECTIVE PRIORITY  
RUCNCIS/CIS COLLECTIVE PRIORITY  
RUEHBJ/AMEMBASSY BEIJING PRIORITY 4264  
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SUBJECT: RUSSIA ENERGY: OIL COMPANY EXECS TELL U/S JEFFREY  
WE SHOULD BE NICE TO RUSSIA

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11. (SBU) Summary: During a lunch meeting with U/S Jeffrey, local representatives of Chevron, ExxonMobil, and ConocoPhillips told us that the best way to engage Russia and enhance global energy security is to focus on positive dialogue geared towards helping Russia improve its oil and gas investment climate. They said Russia is about to embark on a new era of oil and gas development in areas (East Siberia and Arctic regions) that cannot be exploited without Western technologies and expertise. They lamented Russia's political posturing, lack of business instincts, corruption, and underdeveloped human capital, but suggested that these problems should not stand in the way of increased cooperation. End summary.

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"SHORT-TERMISM" AND PRIDE HINDER DEVELOPMENT  
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12. (SBU) Representatives from the three major American oil companies in Russia told U/S Jeffrey that a "very sensitive" Russia is seeking recognition of its new status and power in the world. Russia feels it is being talked to, not listened to. They agreed that in some sectors, the value of open markets and competition has been recognized and has resulted in spectacular development. In others, such as energy, unfortunately, Russia's policy is centered on control. They said Russians suffer from "short-termism" and an aversion to risk that hinders the long-term, risk-management strategy needed to develop the oil and gas sector.

13. (SBU) One company head said that having taken over the oil and gas sector and seeking a model other than the American one, the Russians now don't know what to do. The tax structure is overly burdensome, preventing needed investments in new fields. However, this situation will likely reverse itself as oil production stagnates and/or falls. According to the representatives, we can help Russia develop a better investment climate and redirect its tremendous talent pool, but we need to do so without sounding especially preachy.

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NEW ERA OF OIL AND GAS DEVELOPMENT

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14. (SBU) Having exploited the "easy" oil from Western Siberia, Russia now must explore and develop much more complex fields in Eastern Siberia and the Arctic -- an endeavor which, according to these experts and others, Russia cannot successfully undertake without Western technologies and expertise.

15. (SBU) All three representatives described the inefficiencies they encounter in Russia. These are due to a lack of risk-management expertise as well as a managerial class educated and trained in Soviet times, completely sheltered from international business practices and capitalism. For example, a Russian refinery is 3-4 times the size of a U.S. one, due to concerns that result in unneeded spacing between complexes because the Russians expect part of the refinery to explode sooner or later. Another example given was Lukoil's West Qurm project in which Lukoil plans to drill 500 wells with the same expected result as an American company could obtain with 70. One representative said a local partner's measure of results included "meters of well drilled" -- a seemingly Soviet objective unrelated to results, but often still codified in licenses issued.

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"MOST WORKERS OVER 40 ARE USELESS"  
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16. (SBU) One company representative bluntly said that most of his Russian workers over the age forty, unless they have spent significant time abroad or previously worked for an international company, are of little value. Their mindset and work practices, resulting from training and education in

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the Soviet period, are nearly impossible to change. One company has two adjacent projects with two different local partners. In one, 15 years of cooperation have yielded some of the best results the company enjoys globally. In the newer venture, due to the workforce having been unexposed to international best practices, the results are among the company's worst globally.

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THE USG TONE NEEDS TO BE POSITIVE  
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17. (SBU) Acknowledging all of Russia's shortcomings, from political posturing to corruption, the executives were unanimous and clear in their interest that the USG approach Russia in a positive manner. Asserting that threats and lectures only backfire, they suggested the USG try to help Russia improve its investment climate by seizing on the potential of Russia and avoiding unnecessary confrontation.

This cable has been cleared by U/S Jeffrey.  
BURNS